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DEPARTMENT OF HOMELAND SECURITY

U. S. COAST GUARD

STATEMENT OF

ADMIRAL THAD W. ALLEN
COMMANDANT

ON

DEEPWATER: 120-DAYS LATER

BEFORE THE

SUBCOMMITTEE ON COAST GUARD & MARITIME TRANSPORTATION

COMMITTEE ON TRANSPORTATION & INFRASTRUCTURE

U. S. HOUSE OF REPRESENTATIVES

JUNE 12, 2007

Good morning Mr. Chairman, and distinguished members of the Subcommittee. It has been four months since I first sat here to discuss the way ahead for our Integrated Deepwater System. Much has changed in those four short months and I am grateful for the opportunity today to talk about those changes, our accomplishments, and how we're addressing and moving beyond remaining challenges.

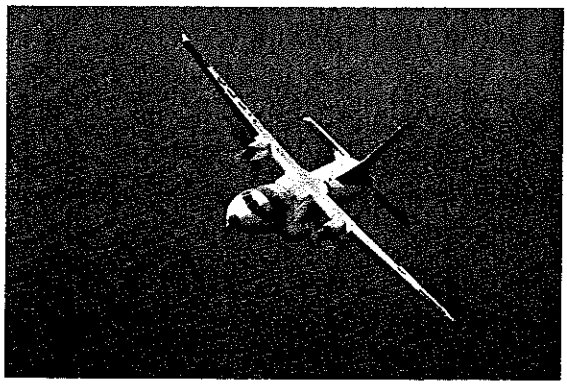
The one thing that has not changed is how absolutely critical the Deepwater program is for the future of the Coast Guard. Unless we are able to continue delivering the program's much-needed assets, our ability to secure the nation's maritime borders, save lives, ensure national security and protect natural resources will be severely limited.

My overarching goal is to recapitalize the Coast Guard's aging fleet of cutters, aircraft and sensors and the actions I have taken since we last met are dedicated to that purpose. That goal must be shared by each stakeholder along the way, and I appreciate the support this Subcommittee has shown as we work toward that end.

Sitting here today, our shared responsibility is to ensure that the Coast Guard is able to meet its vast mission requirements. That means that as we address challenges and implement changes we must do so prudently, or risk significant impacts to the cost, schedule and performance of the Deepwater system. We must acquire these assets responsibly and in a manner that protects the American taxpayer from unnecessary cost and delay. I'm committed to doing just that and am confident that the changes I've directed have put us on a very sound footing going forward.

Forward Momentum

As part of our discussion about the progress we're making in Deepwater, I'd like to take a moment to highlight some significant recent milestones we've achieved.

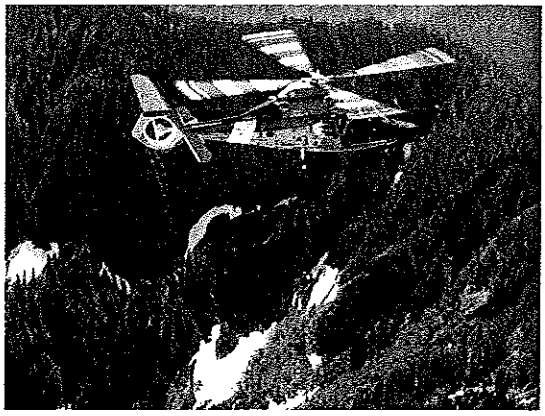


When I appeared before you in January I acknowledged the recent arrival in the U.S. of the first new HC-144A CASA Maritime Patrol Aircraft. We have since seen the second aircraft arrive and anticipate the third to follow shortly. The first two aircraft are currently undergoing installation and testing of mission sensor and communications pallets at the Coast Guard Aviation Repair & Supply Center in Elizabeth City, N.C. The fourth and fifth aircraft are under construction. Additionally, we awarded contracts for the sixth, seventh and eighth aircraft with a cost savings of $900,000 per aircraft, compared to the cost of the first five. Meanwhile, the first of six new, more capable HC-130J long range search aircraft is undergoing upgrade modifications and the existing fleet of HC-130H aircraft is being modernized as part of the Deepwater program.

In fact, a recently upgraded HC-130H, stationed in Clearwater, Fla., recently demonstrated the capabilities of newly-installed Deepwater equipment. On the night of April 11, 2007, Coast guard crews were called on to rescue the crew of an overturned vessel, the *Paradox*. Using the new DF-430 multi-mission direction finder, the crew aboard an HC-130H was able to locate the

Paradox's radio beacon and follow the signal to the stricken boat. Once the aircrew located the vessel, an HH-60J helicopter was vectored to pick up the stranded passengers and crew. It's significant to note that aircrews flying a legacy HU-25 Guardian in previous sorties had been unable to detect the radio beacon. The new equipment installed on the HC-130H provided greater sensor capability, at a greater range, and made that rescue possible.

These fixed-wing projects are a large portion of the Deepwater program and have been extremely successful in terms of both schedule and cost. I am very satisfied with these projects and look forward to the immense value these aircraft will bring to our fleet.

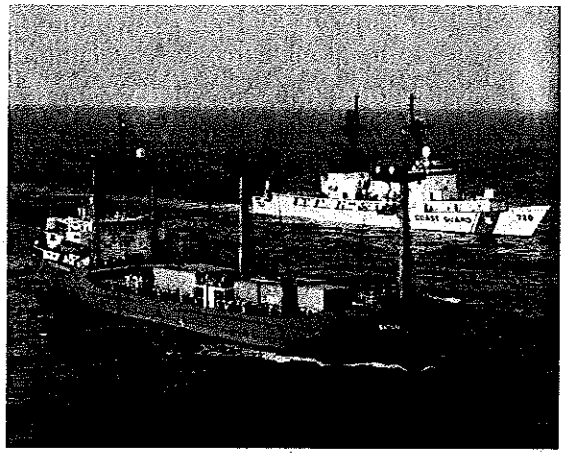


The conversion of our HH-65 Dolphin helicopters has also been extremely successful. In March we marked a major milestone when all Coast Guard air stations with the HH-65 began flying the Deepwater-upgraded "C" model. The re-engining of these helicopters provides 40 percent more lift capability, allowing flight crews to lift more weight, stay aloft almost twice as long, and hoist twice as many survivors as the "B" model during rescue operations. We just reached another milestone in this project when we delivered the 84th re-engined HH-65C to the fleet on May 16–on cost and more than a month ahead of schedule. In fact, as of May 31, 86 aircraft have been delivered on cost and ahead of schedule. These helicopters have already proven their value as they support search and rescue missions around the fleet, including a daring high-altitude rescue of an injured 64-year-old man in Washington State just last month. That mountain hoist, at 7,000 feet, was the highest altitude rescue ever achieved by the Coast Guard and was made possible by the greater lift capacity of Deepwater-upgraded engines.

In addition to the successful re-engining of these HH-65C helicopters, we are also upgrading our HH-60 fleet under the Deepwater program. The first airframe began the conversion process in January 2007 and is expected to complete conversion to the HH-60T prototype later this month. The conversion will replace 1970's-era equipment and sensors with updated technology to provide increased capabilities for the wide range of missions the helicopter is expected to perform. Specifically, these aircraft are being outfitted with a new state-of-the-art cockpit with high-tech equipment, enhanced radar and optical sensors, upgraded engines, and an airborne use of force package to provide more firepower and protection from small arms fire.

Another important milestone was achieved this spring under the Deepwater-funded Mission Effectiveness Project (MEP) for legacy cutters. This project is designed to provide maintenance and upgrades to improve reliability and enable legacy cutters to remain in service until replaced by new Deepwater cutters. On April 26, 2007, the cutter *Tybee*, the first 110-foot Island Class patrol boat to complete the year-long MEP, re-entered the fleet after a very successful refurbishment process.

This spring also saw some exciting progress in our C4ISR (command, control, communications, computers, intelligence, surveillance, and reconnaissance) projects. In March, we opened our new shipboard systems training facility at the Coast Guard Training Center in Petaluma, Calif. This facility is equipped with state-of-the-art simulators, radars and electronics equipment to train Coast Guard crews assigned to new Deepwater cutters. And, the facility is being used to train both Coast Guard and U.S. Navy personnel on common C4ISR systems.



Deepwater upgrades to legacy cutters are also contributing to mission success. In March 2007, *Sherman* executed the largest drug bust in the Coast Guard's history–19.5 metric tons of cocaine. Using its newly-installed Automated Identification System (AIS), the *Sherman* was able to identify the suspect vessel, *Gatun*, while sorting dozens of other vessels near the busy approaches to the Panama Canal. Deepwater C4ISR upgrades also allowed the *Sherman* to remain covert while tracking the *Gatun* from 17 miles away, over the horizon. And, during the execution of the bust, the cutter was able to simultaneously communicate critical information via SIPRNET, upload and receive large files, and receive unclassified message traffic. Ironically, the U.S. Navy has had these tools for decades. It's only through the Deepwater program that they are now available for use on our Coast Guard assets.

Unified Acquisition

These successes notwithstanding, any acquisition of this size will continue to face challenges. As we move forward we must position ourselves to successfully manage those challenges, rather than let the challenges manage us. In January I told you we needed to make some important changes. We are doing just that.

Four months ago we talked about how acquisition success is dependant upon the proper organizational structure and alignment within our acquisition community. At that time we were already plotting a course to achieve that alignment. Since then, we have taken concrete steps to bring together previously disconnected entities within our acquisition community to gain synergies among experts in critical fields.

In April, the first elements of an all-new, consolidated acquisition directorate began coming together, organizationally and geographically. The initial operation of this new directorate will begin officially on July 13. As part of this consolidation, the Acquisition Directorate, the Deepwater Program Office, the Office of Procurement Management, the Office of Research, Development, and Technical Management, the Research and Development Center, and the Head Contracting Authority are being brought together under one roof, led by an assistant commandant for acquisition. This means that we will be better able to allocate our contracting and acquisition professionals and resources to focus on excellence in program management and execution. We expect this to create efficiencies and more consistent and coherent processes,

leading ultimately to a more effective acquisition organization when it reaches full staffing and capability in 2009. As we transition to 2009, we are undertaking major efforts to analyze workforce requirements, fill critical positions and ensure that program managers and contracting officers are appropriately trained and certified following the course charted in our *Blueprint for Acquisition Reform.*

We've also redefined the role of the Coast Guard's chief engineer as the lead technical authority for all designs and design changes and to the operational community for definition of asset performance requirements. This means that project and program managers, as well as associated contracting and acquisition professionals, have a direct link back to our technical and operational experts to ensure that designs meet requirements and will enable mission execution. We're also further defining the role of the Coast Guard's chief information officer as the technical expert for all C4ISR systems and equipment. .

One of our goals through all of this is to make the Coast Guard a model for mid-size federal agency acquisition and procurement organizations. The new acquisition organization will align with the Department of Homeland Security's procurement organization, improve the efficiency of our human capital, provide opportunities for enhanced professional development and succession, and ensure the success of our acquisition managers. The bottom line is: this consolidation will enable the Coast Guard to perform more effective program management and provide more effective oversight by bringing together the expertise, collaboration, coordination, and synergies formerly divided between two directorates.

This newly aligned acquisition organization is enabling the Coast Guard to take many of the steps that this Subcommittee, the Government Accountability Office (GAO), the DHS Office of Inspector General (OIG), the Defense Acquisition University (DAU), and others have recommended. As I've said before, we benefit from the oversight these organizations provide and we are prudently implementing recommendations where appropriate to ensure greater acquisition success in the future.

One challenge the Coast Guard is facing, however, is the excessive burden placed on our limited staff in completing required, but often duplicative, external reports. These reports, while critical to preserving transparency within the major systems acquisition process, often require the redirection of effort from important program management functions. I would like to work with you to develop consolidated acquisition oversight reports, thereby reducing the often redundant nature of these varied reports as well as providing you with the information you need. Consolidated reports will better serve the Coast Guard, you, the Congress, and the Nation.

As I committed to you in January, transparency to our stakeholders remains one of my top priorities. I was pleased to note the DHS OIG's recent acknowledgement of my staff's positive cooperation with its efforts. That level of cooperation will be the rule under my watch.

Better Business Practices

When I appeared before you in January I described a frank meeting I'd had with the Chief Executive Officers of Northrop Grumman and Lockheed Martin where we discussed how to set Deepwater on a course for future success. At that meeting, we agreed to meet regularly to ensure that real change was achieved and that issues could be effectively resolved.

I subsequently reached agreement with industry on six fundamental management principles that we have already begun implementing. These principles will ensure the government's interests are fully and fairly achieved in acquiring and fielding assets and capabilities being developed and produced under the Integrated Deepwater System. These principles will guide us as we seek to obtain the best value for the government through robust competition and vigilant contract oversight and management.

Working together with industry, the Coast Guard will make the following six fundamental changes to improve Deepwater program management:

- The Coast Guard will assume the lead role as systems integrator for all Deepwater asset acquisitions, as well as other major acquisitions as appropriate.

- The Coast Guard will take full responsibility for leading management of all life cycle logistics functions within Deepwater.

- The Coast Guard will expand the role of the American Bureau of Shipping (or other third-parties as appropriate) for Deepwater vessels.

- The Coast Guard will work collaboratively with ICGS to identify and implement an expeditious resolution to all outstanding issues regarding the first two National Security Cutters.

- The Coast Guard will consider placing contract responsibilities for continued production of an asset class (on a case-by-case basis) directly with the prime vendor consistent with competition requirements if: (1) such is deemed to be in the best interest of the government and (2) only after we verify lead asset performance compared with established mission requirements.

- Finally, I will meet no less than quarterly with my counterparts from industry until any and all Deepwater program issues are fully resolved.

Last month we met again, this time in Pascagoula, Miss., and also toured together the National Security Cutter. During this meeting, we focused on developing a robust integrated schedule and on reaching an agreement for NSC's #1-#3 through the consolidated contracting action.

These changes in program management and oversight going forward will change the course of Deepwater. By redefining our roles and responsibilities, redefining our relationships with our industry partners, and redefining how we assess the success of government and industry management and performance, the Deepwater program of tomorrow will be fundamentally better than the Deepwater program of today.

As another example of steps taken to strengthen government management and oversight of the Deepwater program, to better position the Coast Guard to fully oversee the contractor and to effectively adjudicate technical concerns we have mandated that all Integrated Product Teams (IPT) be chaired by an officer or employee of the Coast Guard. That change happened in March 2007. Previously, our IPTs were chaired by representatives from Integrated Coast Guard Systems (ICGS). Additionally, all IPT charters have been re-examined to determine where other

changes might be made if needed. Coast Guard leadership of IPTs means we are better able to resolve non-major technical concerns or, where concerns persist, raise them to appropriate management and contracting levels for adjudication.

Change within Deepwater and our acquisition community required us to take a hard look at our workforce needs moving forward. Deepwater was initially envisioned and developed as a way to acquire needed assets while maintaining minimal government program management staff. Five years later, we know that method didn't deliver the results we wanted. So, to support the Coast Guard taking on more appropriate program and contract management responsibilities, we are keenly focused on building out our workforce to achieve required bench depth in such professional areas as program management, systems engineering, cost estimating, and contracting. I appreciate the support this Subcommittee has provided with this. As a direct result of that support, and with special authorities approved by DHS, we are creating a corps of professionals with required experience to compliment our existing dedicated contracting and acquisition staffs.

In April I announced that the Coast Guard will assume the lead role as systems integrator for the entire Deepwater program–a role previously held by ICGS. I want to be clear that this transition will not happen in an instant. But, as we continue to expand organic capabilities and expertise, we'll gradually phase out the role of a private-sector lead systems integrator. Critical to this effort is the staffing flexibility afforded to me by a consolidated personnel account, which provides the ability to put the right people in the right job. Currently, all salaries, benefits, and support for the military and civilian personnel who administer Acquisition, Construction and Improvement (AC&I) contracts are funded by the AC&I appropriation, whereas 97 percent of the Coast Guard's personnel is funded from the Operating Expenses (OE) appropriation. Consolidating these will allow the Coast Guard to maximize efficiencies and leverage potential synergies in acquisition oversight, as well as increase the Coast Guard's ability to surge personnel to AC&I-related positions as appropriated project funding levels fluctuate.

As the system integrator, we may still need or choose to utilize ICGS, or any other private or government entity - such as NAVSEA or NAVAIR - to perform specific management, engineering and system integration functions for which they are best suited. I have personally met with the Secretary of the Navy, Chief of Naval Operations and the Commander of the Naval Sea Systems Command. We have an outstanding working relationship.

As the Coast Guard continues to shoulder additional systems integrator responsibilities we will examine changing workforce requirements. In fact, we have commissioned an independent, third-party assessment, to be completed this fall, to examine our current and future human capital needs under the new acquisition directorate. We will focus future planning, recruitment, retention and training efforts based on the findings of that assessment.

Added program management staff has also allowed us to establish procedures for more effectively responding to contractor requests for deviations and waivers. The very nature of a request for deviation or waiver demands intense government scrutiny of the request and consideration of any possible consequences to mission execution and crew safety. To enable this type of timely action, we've developed a new review process for these types of requests. Under this process, and before any request is approved, that request must be reviewed in detail by a board of technical experts and contracting officers based on pre-determined guidelines. Under

this procedure, the entire request for deviation or waiver process will be thoroughly documented, from the submission of the request by the contractor through the expert review to the decision of the Coast Guard regarding whether to grant the request. This will help to ensure that each asset system meets or exceeds performance requirements.

We've also determined that the Coast Guard will use the American Bureau of Shipping (ABS) to certify that Deepwater vessels meet High Speed Naval Craft (HSNC) and Naval Vessel rules as appropriate. In fact, we're taking steps now to ensure that this certification is included in the acquisition of the B-Class Fast Response Cutter, currently in the Request for Proposal process. By establishing a certification expectation for this and future vessels, we can ensure that equipment and assets meet requirements and that standards are enforced consistently and independently.

We continued to reaffirm our commitment to third-party reviews as tools of effective program management. Our recently commissioned assessment of human capital needs is only one such review that will enable informed program management decisions. In January, I also noted the comprehensive business case analysis and technology readiness assessments conducted for the composite-hull Fast Response Cutter design (also called FRC A-Class).

Based on findings in that review, we have taken a step back and refocused our immediate patrol boat efforts toward our "parent craft" replacement patrol boat (FRC B-Class). In January, we had anticipated receiving a design proposal for the replacement patrol boat from ICGS by the end of March. But, in mid-March, after being briefed by ICGS on its progress, we determined that it was in the best interest of the government to procure the FRC B-Class outside of the ICGS construct. A number of considerations led to this determination, one of which was the importance of full and open competition in the procurement.

We're also conducting an independent review of the Deepwater program's Vertical Launch and Recovery Unmanned Aerial Vehicle (VUAV) through our Research and Development Center (R&D) and the Center for Naval Analysis. The first phase of this multi-phased review examined the technology required for both the Eagle Eye (targeted for the Deepwater program) and the Fire Scout (being developed for the U.S. Navy). It found that the technology needed for either platform is not mature enough to warrant full-rate production. The second phase of the R&D study is examining alternate methods of achieving the surveillance and reconnaissance capabilities required from the VUAV. We will make a determination about future procurement of a UAV in Deepwater based on those findings. And we will continue to monitor DHS and DoD efforts for potential opportunities to align in the future.

We're also currently negotiating the modified Deepwater contract for the first award term. While the new award term does establish ICGS as a ***possible*** sole-source option, it does not ***obligate*** the government nor ***guarantee*** award of any work to ICGS. This new contract will be a change in direction demonstrating the Coast Guard is in charge of the Deepwater program and is making all decisions. The scope of the new award term contract is fully one-third less than the original base contract. The Coast Guard is going to be a smart buyer, only moving forward on a product line after a first article asset success.

Under the new award term, each contract task or delivery order will be negotiated and awarded based on best value for the government. The new award term of 43-months begins June 25, 2007, with a focus on the first 18 months of the term. After that 18-month period, we'll review

contractor performance and determine whether to award any additional delivery task orders from that point forward. We've also strengthened award term criteria, making them more objective and placing the focus of determination more appropriately on cost control, operational effectiveness, competition, program management and execution, and logistics.

Addressing the Past

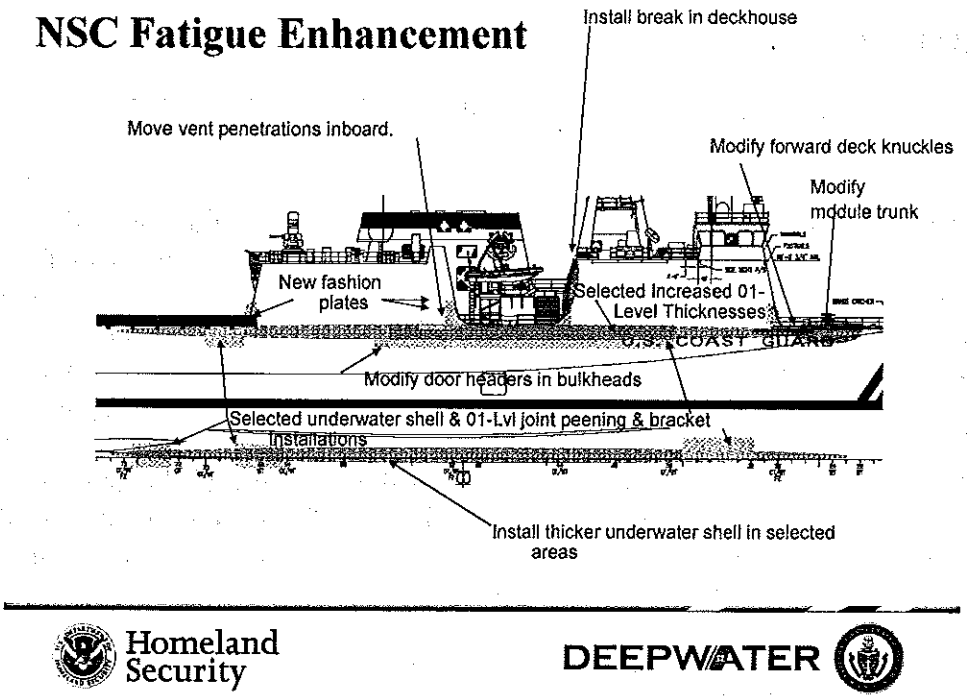
I'd like to take just a moment to address past challenges that continue to merit our attention and require further resolution.

First: the question of our 123-foot patrol boats. On April 17, 2007 I announced my decision to permanently decommission these eight cutters due to ongoing structural issues following their extension from 110-foot boats. Since last fall when I suspended the 123s from service, we have had a team of legal, engineering, and contracting experts reviewing documents and designs to recommend possible actions to recoup government costs incurred as a result of the loss of these hulls. Multiple studies and extensive analysis conducted by Coast Guard engineers and third-party naval architects and marine engineers over the last several months collectively establish that the failures were directly related to ICGS design flaws for the 123' conversion effort. On May 17, 2007 we issued a letter to ICGS in accordance with Federal Acquisition Regulations (FAR) revoking acceptance of all eight cutters due to hull buckling and shaft alignment issues. We have not yet determined the amount of damages due the government from ICGS but will provide a payment letter to ICGS once that determination is made. Additionally, we anticipate being able to recoup residual value from significant equipment on the cutters, such as the eight Short Range Prosecutors, 16 Paxman engines and other equipment.

Recent statements in testimony before this Subcommittee and in the press suggest that the Coast Guard's handling of classified information is suspect or worse. I want to state for the record that to the best of my knowledge there was no compromise of classified information related to the 123-foot patrol boats. All TEMPEST requirements were met following Department of Defense processes and with independent verification and validation from the U.S. Navy's Space and Naval Warfare Systems Command (SPAWAR). These processes have been developed to identify and address potential vulnerabilities prior to a system being authorized to handle any classified information, and we used these processes effectively to do just that. Our nation's secure information posture is aggressively overseen by the National Security Agency, the Defense Information Systems Agency, the Joint Task Force for Global Network Operations and the Director of National Intelligence. Our partnership with each of these entities is a great source of pride for the Coast Guard and had any of these agencies detected a compromise we would have been informed. With regard to the National Security Cutter, the only difference in the testing process is that we will address it earlier in the ship's construction and delivery process based on lessons learned.

Moving to the National Security Cutter, under the recommendation from our technical authority we've identified an engineering solution to address fatigue concerns with the hull. We are 100 percent confident that this engineering solution will eliminate fatigue concerns. As I discussed in January, the issue here has always been a question of fatigue life over the course of the cutter's 30-year service life. I want to reiterate: there has never been a question of safety related to the ship's structure, nor have we ever anticipated any operational restrictions. We simply felt,

after analysis of the design, that some modifications were needed to ensure the fatigue life reached 30 years. These modifications will be retrofitted to the first and second NSC. The design fix for the remaining six NSCs will be incorporated during initial construction.



We're also actively working with industry on a consolidated contracting action to resolve all outstanding contract issues related to the National Security Cutter. This includes industry's Request for Equitable Adjustment (REA) and post-9/11 design changes to the NSCs. I assure you that during these negotiations we are taking a very hard look at whether an REA is warranted and what limits should be placed on it. This includes demanding that industry provide very precise justifications for each aspect of its requests. The Coast Guard's shipbuilding team is better prepared than ever before to successfully handle a contracting issue of this size. The objective of the consolidated contract action is to contractually agree to the final cost of the first three NSCs and to place NSC 3 on contract in order to continue this vital production line. Any break in production of a project with this level of complexity drives cost higher.

The Coast Guard's shipbuilding programs are facing the same well-documented challenges that the U.S. Navy is experiencing. A diminishing industrial base along with continuing Hurricane Katrina impacts are real cost drivers. In spite of these challenges, the first NSC, *CGC Bertholf,* continues to make impressive progress. As an example, we recently lit off the electrical generators on board. This is a tremendous milestone as we drive our team to take the *Bertholf* to sea this year.

The *Bertholf,* is the best "first-in-class" cutter ever built for the Coast Guard. The Chairman and I toured her recently. If any on this Subcommittee doubt the ability of this ship to meet our requirements for mission execution and crew safety, I invite you to join me for a walk of her decks yourselves.

Next Six Months

The next six months will show some very significant progress and the realization of tremendous milestones for the Coast Guard and Deepwater.

In the next few weeks we'll release the Request for Proposal (RFP) for the replacement patrol boat (FRC B-Class). We anticipate that the contract for this cutter will be awarded in the second quarter of FY2008, following full and open competition, with lead ship delivery in FY2010.

As I mentioned earlier, later this month we'll finalize negotiations and award the contract for the first award term. This contract will establish even more rigorous evaluation criteria and will hold the contractor accountable for work performed under the contract.

On July 13 we'll stand up the newly aligned acquisition directorate under the command of an assistant commandant for acquisition. Rear Admiral Gary Blore, who has superbly led Deepwater through this year of change, will assume the role as Chief Acquisition Officer and assistant commandant for acquisition for the Coast Guard. The Program Executive Officer for Deepwater will be retained within the new organization; I have asked Rear Admiral Ron Rabago, an engineer, former commanding officer of the Coast Guard Yard and technical expert on naval engineering issues, to take the helm there.

And we anticipate we'll finish our negotiations in July as part of the consolidated contract action for outstanding issues with the National Security Cutter. This will allow us to move forward, confident of cost and with the ability to negotiate and award contracts for future hulls.

We expect to accept the first fully mission-ready HC-130J this fall following a very successful missionization process that began last December.

Future Success

It's appropriate that we sit here today to examine the progress we've made in the Deepwater program during the past four months. We're on the leading edge of significant changes in the program and are already beginning to see real results. Many hard choices still lie ahead, but the Coast Guard is now positioned, organized and empowered to make those decisions in the best interest of the government.

This is a very exciting time for the Coast Guard and for Deepwater. New capabilities are being added daily. Our past challenges have made us stronger today and better able to manage the challenges of tomorrow. We can get this right and I've given you my commitment as Commandant to do just that.

Again, our shared goal must be the recapitalization of the Coast Guard. Deepwater assets and upgrades have already proven their worth in mission operations nationwide and even thousands of miles from our shores. Now is the time to renew our dedication to provide these ships, aircraft and sensors for the future success of Coast Guard missions. We owe it to the American people to ensure that their Coast Guard remains a viable protector today and into the future.

Thank you for the opportunity to testify before you today. I'm happy to answer any questions you may have.